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Implementation of the First United Nations Decade for the Eradication of Poverty (1997–2006)

Role of microcredit in the eradication of poverty

Report of the Secretary-General

Summary

The present report has been prepared in response to a request contained in General Assembly resolution 52/194 of 18 December 1997. This is the first time the Secretary-General has been requested to prepare a report on the question of microcredit and the eradication of poverty. The prominence given to the matter reflects the recent success of small-scale lending programmes such as the Grameen Bank of Bangladesh. These rely on lending (usually a few hundred dollars) to small enterprises in agriculture, distribution, crafts, trading and similar activities. The participatory nature of these projects, together with the emphasis on women entrepreneurs and employment creation, have raised hopes of reducing poverty through this approach.

The present report surveys current experience and highlights the strengths and weaknesses of the microcredit approach, including the administrative difficulties and limited linkages with other services for the poor. The report also contains suggestions for strengthening operations, and makes a particular plea for ensuring that microcredit projects are established in a broader context of support to the small enterprise sector. Responsibilities of donor countries in this regard are emphasized.

Finally, the report highlights the activities of the United Nations system and non-governmental organizations in support of microcredit, giving special emphasis to the World Bank-led Consultative Group to Assist the Poorest.

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I. Introduction

1. The objective of the First United Nations Decade for the Eradication of Poverty (1997–2006), proclaimed by the General Assembly in its resolution 50/107 of 20 December 1995, is to achieve the goal of eradicating absolute poverty through national action and international cooperation. Progress on the anti-poverty front was last reported to the General Assembly in the report of the Secretary-General entitled "Observance of the International Year for the Eradication of Poverty (1996) and recommendations for the rest of the Decade" (A/52/573). An updated report on the Decade has been prepared for the current session.

2. The General Assembly, in its resolution 52/194 of 18 December 1997, noted that, in many countries microcredit programmes have proved to be an effective tool in freeing people from poverty and have helped to increase their participation in the economic and political processes of society. Among other provisions, the Assembly called upon the relevant organs, organizations and bodies of the United Nations system, in particular its funds and programmes and the regional commissions, as well as relevant international and regional financial institutions and donor agencies involved in the eradication of poverty, to explore including the microcredit approach in their programmes as a tool for the eradication of poverty. The Assembly requested the Secretary-General, in collaboration with relevant organizations of the United Nations system, including funds and programmes and the World Bank, to submit to it at its fifty-third session a report on the role of microcredit in the eradication of poverty.

3. The World Summit for Social Development, held in Copenhagen in March 1995, also underlined the importance of improving access to credit for small rural or urban producers, landless farmers and other people with low or no income, with special attention to the needs of women and disadvantaged and vulnerable groups. Governments were called upon to review national legal, regulatory and institutional frameworks that restrict the access of people living in poverty, especially women, to credit on reasonable terms; to promoting realistic targets for access to affordable credit, providing incentives for improving access to and strengthening the capacity of organized credit systems to deliver credit and related services to people living in poverty and vulnerable groups; and to expanding financial networks, building on existing networks, promoting attractive opportunities for savings and ensuring equitable access to credit at the local level.[1]

II. Role of microcredit in poverty eradication

4. This is the first time that the Secretary-General has been requested to report to the General Assembly on the subject of microcredit. In the broader context of the international fight against poverty, the paper highlights the strengths and weaknesses of the microlending approach, from which some conclusions about the future course of action are drawn. The report, as requested by the General Assembly, provides information from United Nations funds, programmes and agencies on their actions, especially in the field.

A. Microcredit and poverty eradication

5. Since the World Summit for Social Development the priority given to poverty eradication has grown. As stated in the previous report of the Secretary-General on the eradication of poverty (A/52/573), it is now broadly accepted that robust economic growth that is labour-intensive and equitable, combined with larger outlays of social expenditures, especially directed towards the poor (now estimated at 1.3 billion people), are a winning combination in the fight against poverty.

6. Several factors have led to increased interest in microcredit in promoting growth with greater equity. There has been a growth in the recognition of the importance of empowering all people by increasing their access to all the factors of production, including credit. In addition, the value of the role of non-governmental organizations in development is receiving more attention.

7. It is in that context that microcredit has recently assumed a certain degree of prominence. It is based on the recognition that the latent capacity of the poor for entrepreneurship would be encouraged with the availability of small-scale loans and would introduce them to the small-enterprise sector. This could allow them to be more self-reliant, create employment opportunities, and, not least, engage women in economically productive activities. Currently, there are estimated to be about 3,000 microfinance institutions in developing countries. These institutions also help create deeper and more widespread financial markets in those countries.

B. Characteristics and recent successes of microcredit programmes

8. Informal and small-scale lending arrangements have long existed in many parts of the world, especially in the rural areas, and they still survive. Good examples are schemes in Ghana, Kenya, Malawi and Nigeria ("merry-go-rounds", "esusus" etc.). They provide the rural population with access to savings within the local area and with a certain cushion against economic fluctuations, and they encourage a cooperative and community feeling. The groups formed provide joint collateral and serve as instruments for spreading valuable information that is useful for economic and social progress.

9. All economies rely upon the financial intermediary function to transfer resources from savers to investors. In market economies, this function is performed by commercial banks and the capital markets. More widespread financial intermediation, as well as increasing depth and variety, are a hallmark of advancing development. But in many developing countries, capital markets are still at a rudimentary stage, and commercial banks are reluctant to lend to the poor largely because of the lack of collateral and high transaction costs. The poor would borrow relatively small amounts, and the processing and supervision of lending to them would consume administrative costs that would be disproportionate to the amount of lending. A study by the International Fund for Agricultural Development (IFAD) has confirmed that complicated loan procedures and paperwork, combined with a lack of accounting experience, limit poor people's access to formal sources of credit. Other reports cite the fact that commercial lenders in rural areas prefer to deal mainly with large-scale farmers.

10. The absence of commercial banks has led to non-conventional forms of lending. The recent prominence given to microcredit owes much to the success of a relatively few microcredit programmes and their increasing scale. The Grameen Bank of Bangladesh, the most prominent of the successes, now reaches over 2 million people, with cumulative lending of about $2.1 billion. Similar successful examples are known in Latin America (e.g., Banco Solidario in Bolivia), less so in Africa (the Kenya Rural Enterprise Programme is a good example). Progress has also been recorded in several transition economies, mixed in some cases. Such institutions have not only achieved a degree of success, but they have also managed to attract donor support and press attention.

11. These schemes are characterized by relatively small loans, a few hundred dollars at most. The repayment period is relatively short, about a year or so. Women are a major beneficiary of their activities, and the destination of the funds primarily includes agriculture, distribution, trading, small craft and processing industries. The administrative structure is generally light and the entire process is participatory in nature. The impact of microcredit lending varies widely between rural areas and urban areas.

12. In many developing countries, overall interest rates are relatively high to begin with, so that rates charged by microlending schemes are quite high when the risk premium is added. Many of these micro-institutions claim a high rate of repayment. This is attributable to the informal participatory structures, which create an atmosphere in which debtors respect their obligations. While this phenomenon is certainly true of the better-run institutions, it is not possible to verify whether this is a universal feature. There is little by way of "global" research in this area, even though the literature on microcredit has proliferated in recent years.

13. It should be noted that although a large number of studies undertaken so far on the impact of microcredit programmes on household income show that participants of such programmes usually have higher and more stable incomes than they did before they joined the programmes, some practitioners still have reservations about the findings of those studies. Moreover, not many microcredit programmes can afford to undertake impact assessments because they are generally expensive and time-consuming. There are serious disagreements among experts on the validity of methodologies used in some of the published studies. In some cases, even the more rigorous studies have produced inconclusive results. Some studies show that there are limits to the use of credit as an instrument for poverty eradication, including difficulties in identifying the poor and targeting credit to reach the poorest of the poor. Added to this is the fact that many people, especially the poorest of the poor, are usually not in a position to undertake an economic activity, partly because they lack business skills and even the motivation for business.

14. Furthermore, it is not clear if the extent to which microcredit has spread, or can potentially spread, can make a major dent in global poverty. The actual use of this kind of lending, so far at least, is rather modest: the overall portfolio of the World Bank, for example, is only $218 million. In recent international meetings, it has been stated that a target to reach 100 million families by the year 2005 would require an additional annual outlay of about $2.5 billion. This should be compared to the total gross domestic product (GDP) of all developing countries, which is now

about $6 trillion. A certain sense of proportion regarding microcredit would seem to be in order.

15. In addition, the administrative structures governing these institutions are commonly either fragile or rudimentary, and often involve large transaction costs. A study by the Organisation for Economic Cooperation and Development (OECD), for example, found that many specialized agricultural institutions were not designed to serve as financial intermediaries. The success of financial intermediation at any time depends significantly on how efficiently the transaction is completed. If the transaction costs, combined with high interest rates, require that the operation in question generate profit margins of the order of 30 to 50 per cent, it is not clear that this would be economically beneficial. It is not surprising that in many microlending operations, trading activity – with quick turnover and large profit margins – dominates.

16. In many cases, microcredit programmes have been stand-alone operations. There is now considerable consensus that lending to the poor can succeed provided it is accompanied by other services, especially training, information and access to land. An OECD study, for example, emphasized that credit needs to be supplemented with access to land and appropriate technology. But such activities require strong support from the public sector. In some of the lowest-income countries, lack of access to land is the most critical single cause of rural poverty, which dominates the poverty situation in those countries. Yet, few countries have substantial land reform programmes.

17. Moreover, in the proliferation of microlending institutions, non-governmental organizations and foreign donors have played an increasing role. Non-governmental organizations vary in quality and strength. The best results are produced, research shows, when developing country Governments and non-governmental organizations work hand in hand. While donor participation can be positive, it should be noted that total official development assistance (ODA) has declined in recent years.

Recent developments

18. Over the past decade, microfinance institutions have adopted innovative ways of providing credit and savings services to the entrepreneurial poor. Two approaches have been advocated on the role of credit in poverty reduction. While supporters of the income-generation approach maintain that credit should be provided mainly to the entrepreneurial poor to enable them to finance specific private income-generating activities to increase their revenues, proponents of the so-called new minimalist approach argue that credit programmes would still be helping the poor fight poverty by giving credit to any poor person who is able to repay a loan without dictating to that person how and on what the loan should be used. Some studies have pointed out that the problem of the non-productive use of credit, as advocated by the minimalist approach, lies in the fact that by consuming rather than investing their loans, the actions of such borrowers, if imitated by other poor people, could produce a negative impact on the future growth of microcredit.

19. Several microfinance institutions have succeeded in reaching the poorest of the poor by devising innovative strategies. These include the provision of small loans to poor people, especially in rural areas, at full-cost interest rates, without collateral, that are repayable in frequent instalments. Borrowers are organized into groups, which reduces the risk of default. These are also effective mechanisms through which to disseminate valuable information on ways to improve the health, legal rights, sanitation and other relevant concerns of the poor. Above all, many microcredit programmes have targeted one of the most vulnerable groups in society – women who live in households that own little or no assets. By providing opportunities for self-employment, many studies have concluded that these programmes have significantly increased women's security, autonomy, self-confidence and status within the household.

Asia

20. Microlending has progressed to the greatest extent in the Asian region. An innovative approach that has been used successfully by Grameen Bank's credit-delivery system is "peer-group monitoring" to reduce lending risk, although some studies have suggested that the reason for the Grameen Bank's high repayment rates is also partly due to the practice of weekly public meetings – at which attendance is compulsory – for the repayment of loan instalments and the collection of savings. It is reported that the meetings reinforce a culture of discipline, routine repayments and staff accountability. Not all microfinance institutions use peer-group monitoring. Other institutions such as the Bank Rakyat of Indonesia, which serves 2.5 million clients and 12 million small savers, rely on character references and locally recruited lending agents in place of physical collateral.

21. Thailand's Bank of Agriculture and Agricultural Cooperatives serves approximately 1 million micro-borrowers and 3.6 million micro-savers. Newcomers such as the Association for Social Advancement of Bangladesh, with half a million clients, and the People's Credit Funds of Viet Nam, with more than 200,000 members or clients, are

other examples of the potential for growth in the industry. Other institutions such as the Association of Cambodia Local Economic Development Agencies, Buro-Tangail of Bangladesh, the Self-Employed Women's Association Bank of India, and Amanah Ikhtiar Malaysia are also reported to be making good progress.

22. Various institutions are involved in the delivery of microfinance services. They include formal commercial banks, rural banks, cooperative institutions, credit unions and non-governmental organizations. Their methods of doing business range from Grameen Bank-style solidarity groups and institutions dealing with individual clients to self-managed self-help groups. Reports indicate that some institutions have gone beyond credit to offer insurance and other financial services. Both the Grameen Bank and the Bangladesh Rural Advancement Committee offer non-financial services, such as retail outlet facilities for products of their clients.

Latin America

23. In Latin America, Acción Internacional, a non-profit development agency, and its affiliates was reported to have disbursed in the past five years $1 billion in loans to poor microentrepreneurs. Its first-time loans are between $100 and $200, and the overall repayment rate is above 98 per cent. Its network of 19 affiliates in Latin America and North America provides $300 million a year in loans to poor entrepreneurs (56 per cent of whom are women). Since 1987, Acción's network has grown from 13,000 to more than 285,000 active borrower clients. The six largest affiliates now provide $1 million per month in loans. Banco Solidario of Bolivia, which has grown from a credit-providing non-governmental organization to a fully licensed commercial bank, provides financial services to 67,000 people, more than one half of the total number of clients in the entire Bolivian banking system. The Association for the Development of Micro-Enterprises of the Dominican Republic and Acción Comunitaria del Peru are reported to have achieved sustainability.

Africa

24. In West Africa, where microfinance institutions are still in their infancy, a World Bank case study of nine microfinance programmes – the Pride, Crédit rural and Crédit mutuel de Guinée; Crédit mutuel du Sénegal and Village Banks Nganda of Senegal; Réseau des caisses populaires and Sahel Action Project de promotion du petit crédit rural of Burkina Faso; and Caisses villageoises du pays dogon and Kafo Jiginew of Mali – concluded that all nine of these programmes are very much in the mainstream of best practice in the field of microfinance. In terms of sustainable lending to microentrepreneurs, the study gave high marks to the programmes on the following basis: all nine programmes are located near their clients and in the largest catchment areas possible; they use lending technologies that are simple, well-tailored to the cultural environment and inexpensive for both lender and client; they have employed effective techniques for obtaining high repayment rates; most include savings, which meet a critical need of many people, and they price their loans far above commercial lending rates, though not at full cost recovery.

25. A recent study of 11 major microenterprise finance programmes – Agence de credit pour l'enterprise privee of Senegal, Asociación Dominicana para el Desarrollo de la Mujer of the Dominican Republic, Banco Solidario of Bolivia, Badan Kredit Desa, Bank Rakyat Indonesia and Lembaga Perkreditan Desas of Indonesia, Bankin Raya Karkara of the Niger, Corporación de Acción Solidaria of Colombia, Fondación Integral Campesina of Costa Rica, Grameen Bank of Bangladesh, and the Kenya Rural Enterprise Programme – showed that 10 of the programmes were operationally efficient. Five institutions were fully profitable, generating inflation-adjusted positive returns on assets. It was reported that, in 1993, the Agence de credit pour l'enterprises privee of Senegal, Banco Solidario of Bolivia and Lembaga Perkreditan Desas of Indonesia had covered 100, 103 and 137 per cent of their costs, respectively. In view of the growing popularity of microfinance institutions, some of which now explore the possibility of deposit mobilization or leverage commercial capital, it is reported that bank regulators in such countries as Bolivia, Ghana, Kenya and Peru, and other countries, are creating laws or special regulations for this new breed of institutions. In Bolivia, it is reported that Banco Solidario, a private commercial microenterprise bank, is regulated by the Superintendency of Banks, with the same financial and reporting requirements as traditional banks, but with simpler loan documentation and risk classification rules. In the case of Bolivia, which seeks to encourage new microfinancial institutions, it is reported that the Government has begun licensing a new class of intermediaries, known as private financial funds, subject to the same solvency and reserve requirements as banks, but with lower minimal capital requirements.

C. Recent developments of international institutions

26. One of the outcomes of recent discussion has indicated that a more coordinated and concerted international effort is required if microcredit is to spread and succeed on the scale that expectations now require. It is with that perspective in mind that the World Bank has led the process of international coordination primarily by establishing the Consultative Group to Assist the Poorest (CGAP), which brings together a number of western donor countries and international agencies. The Group has ancillary structures which ensure that non-governmental organizations and borrowers in general are consulted.

27. CGAP, which comprises 25 members, including United Nations bodies, is a multi-donor effort to address the problems facing microfinancing. The most important of these are lack of access to information, the measurement of loan delinquency, setting of interest rates, designing lending procedures and developing business projects. The objective of CGAP is to foster good donor practices, including performance standards.

28. With regard to the level of funding to microcredit institutions, in its first two-and-a-half years, CGAP provided about $18 million in grants to microfinance institutions and also committed $400 million in the past three years to microfinance activities. These are relatively modest amounts. Grants have been made directly to institutions and networks of practitioners. Eligibility criteria have included the following: (a) institutions must serve more than 3,000 very poor clients, of which at least 50 per cent must be women; (b) institutions must be operationally self-sufficient and on the path to financial self-sufficiency; and (c) institutions must be on the path to mobilizing domestic commercial resources.

29. An important positive development from the CGAP process is that success stories and their characteristics are now much better known. To spread these best microcredit practices to different parts of the world – often under vastly varying conditions – is now the central challenge facing the international community and the developing countries.

30. Within the international community, many United Nations organs have now started to support microcredits, especially under the leadership of the United Nations Development Programme (UNDP). The provision of actual financial resources is rather limited; instead, United Nations bodies have emphasized capacity-building and institutional strengthening, training and consultations to spread best practices. Under the provisions of General Assembly resolution 52/194, all United Nations organs were requested to provide information on their activities; this information is contained in chapter III below.

31. It should be borne in mind that total world ODA is diminishing, and resources for United Nations bodies are under special strain. Therefore, a better use of the available resources has become a more pressing imperative. It is important that resources are channelled to sectors that have potential, especially agriculture, infrastructure and education. It would be a pity if experimentation with new forms of development activities were to lead to a squandering of aid.

D. Towards stronger support to small enterprises

32. The discussion above suggests that if microcredit is to play a strong role in development, certain requirements need to be fulfilled. The most crucial requirement is to perceive microcredit lending as part of a comprehensive programme of support to the small enterprise sector. According to CGAP estimates, the sector already employs 500 million of the poor; it constitutes an active base for strengthening the private sector in a large number of developing countries. This would entail Governments of developing countries formulating plans and programmes to support small enterprises in general, of which microcredit should be an integral part. Furthermore, the regulatory framework should be receptive to small enterprises. Many micro-borrowers have complained of this particular shortcoming in developing countries.

33. There are many examples of successful interventions in the OECD countries in favour of small enterprises, the foremost among them being the United States Small Business Administration. The Small Business Administration is a rather remarkable organization that is fully backed by the Government, operates through the private sector and provides the small business sector with a wide array of support services, including information and training. (Of course, commercial rates of interest prevail in the programme.)

34. Developing countries could benefit by instituting similar comprehensive programmes, eventually involving the private sector and, where applicable, efficient non-governmental organizations. The United Nations could provide more robust technical assistance programmes in that direction. There is a delicate balance to be struck between getting the poor eventually into the market economy and

commercial lending rates on the one hand, and the importance of providing low-cost assistance to them at the initial stage of their entrepreneurship.

35. Targeting is a particularly thorny topic. There have been allegations that in fact the very poor are so weak as not to benefit from microlending, and that it is the "better off poor" that benefit. While all the poor need to be included in the programmes, the shortage of funds impels organizers to make special efforts to reach the less well-off among the poor. Microcredit should be viewed as complementary to the provision of basic services like education, housing, health and nutrition. The latter are indispensable in the fight against poverty.

36. A crucial part of any future effort should be to strengthen the administrative structures of existing microcredit institutions, rather than letting multiple and competing institutions proliferate. It is possible that economies of scale are important in microlending. Dynamic leadership and paid management staff are probably crucial. The provision of information on available services to the poor is particularly essential. This is not at present the case, even in some advanced developing countries. Information on services for the poor is rarely made readily available.

37. In that context, the long-term financial sustainability of microcredit operations deserves particular attention. In the more successful schemes, repayment rates are high, but this is not so with many operations that do not have a high profile. In the absence of long-term sustainability, microcredit operations become a welfare or charity operation. While the latter have their own place in development in some circumstances, they should not characterize microcredit institutions.

38. Probably the single most important element in ensuring long-term sustainability of these operations is to include in them the savings mobilization function. This is not always the case at the present time. The operation that lends to the poor should also cater to their savings needs. In many developing countries, savings habits are quite widespread, but the institutional structures do not fully cater to them. The possibility of combining savings and lending operations in some form of credit union organization should always be explored. Once again, the credit union movements in the OECD countries could be emulated by developing countries. International organizations could provide technical assistance in the setting up of frameworks for credit unions and in strengthening their management.

39. Donor countries have a special responsibility to ensure that financial intermediation programmes are soundly based, operate through solid local entities and involve the public sector and that monitoring is an important part of the process. To some extent, the recent prominence given to those operations is donor-driven; the responsibility on the donors is subsequently heavy. It is particularly important that donor funds, whether grants or loans, not be perceived in recipient countries as simple transfers.

40. Coordination among the donor countries has in fact been perceived to be weak in many settings, thus giving rise to duplicative projects and fragmentation of available institutional capability in the developing countries. The CGAP process should be greatly strengthened and directed to better donor coordination. The United Nations system can help in that process, especially at the field level. The United Nations system also needs to spread a more realistic notion of the potential of microcredit approaches, and to put them in the broader perspective of the fight to eradicate poverty.

III. International support to microcredit lending

41. The present section contains a summary of activities of the United Nations system.

A. United Nations

42. In the United Nations Secretariat, the responsibility for assisting in the implementation of the follow-up to the World Summit for Social Development and the servicing of the intergovernmental bodies involved rests with the Department of Economic and Social Affairs. The Department is also the focal point for the First United Nations Decade for the Eradication of Poverty. Given its mandate, special attention is given to Africa and to the advancement of women.

43. A one-day forum, entitled "Africa Advocacy Forum: Microcredit and Poverty Eradication", was organized on 6 February 1997 by the Office of the Special Coordinator for Africa and the Least Developed Countries and co-sponsored by the former Department for Policy Coordination and Sustainable Development and Department for Development Support and Management Services and several United Nations agencies. The agenda of the forum focused on five topics related to important aspects of a strategy for poverty eradication. These included the impact of microcredit on food security; women's economic empowerment; the provision of basic social services; employment/self-employment; and traditional banking systems.

44. In July 1997, the Office of the Special Coordinator for Africa and the Least Developed Countries, together with the Governments of Japan and Thailand and UNDP, organized the Asia-Africa Forum on the Economic Empowerment of Women, which was held at Bangkok. The forum adopted a framework for action, which includes a recommendation for the promotion of women's economic empowerment through improved access to credit and finance, and through the promotion of microfinancing schemes, including group financing without collateral, and savings and credit facilities.

45. The Office of the Special Coordinator for Africa and the Least Developed Countries also participated in the Sixth International Women Entrepreneurs Conference, held at Accra from 16 to 19 September 1997. The theme of the conference was "Technology and communication: impact on women entrepreneurs in the global economy". The Office will also be participating in the Second Tokyo International Conference on African Development, which will deal with the issue of rationalizing the microcredit concept in Africa and developing a model that could be applied throughout the African region. With regard to publications, the Office carried out a study on poverty eradication in 14 selected countries, describing experiences of innovative efforts in addressing poverty and underdevelopment. The study showed how microcredit schemes can improve community development.

46. Another study on microfinance is being undertaken by the Division of Public Economics and Public Administration. The study will explore various facets of microfinance institutions, including issues related to the financial dynamics of microenterprises and what distinguishes microfinance from commercial finance.

Regional commissions

47. As a follow-up to the World Summit for Social Development, and in response to General Assembly resolution 52/194 on the role of microcredit in the eradication of poverty, the regional commissions are undertaking a number of initiatives in the area of microfinance. In the case of the Economic Commission for Africa (ECA), the main objective of its microfinance work programme is to promote microfinancing as a strategic tool for sustaining the operations of microenterprises, including the informal sector, by creating awareness on its role to private development and advising member States on how to articulate policies, strategies and mechanisms for encouraging microcredit and required financial intermediation. In this regard, in 1997, ECA carried out a study on reconciling indigenous informal and formal microfinancing systems and practices in Africa, with recommendations to Governments, financial institutions, non-governmental organizations, the private sector and grass-roots organizations. The work programme for 1998–1999 also includes a study on the role of microfinancing on the sustainable development of small and medium-sized enterprises. Since 1992, the Commission has been implementing a pilot project in Ethiopia and Zambia on the promotion of the informal sector on the economic development of Africa. It is expected that the project will next be implemented in Côte d'Ivoire and Ghana. ECA plans in the coming years to disseminate the results of the pilot project among other African countries by publishing a manual on the tested participatory approach, holding subregional workshops, and reinforcing advisory services to ECA member States. In this regard, ECA also intends to take measures to strengthen cooperation with bilateral and multilateral partners.

48. Like other regional commissions, the Economic and Social Commission for Asia and the Pacific (ESCAP) provides a mechanism for exchange of experience on microcredit facilities among interested countries and a way of drawing up best practices and modalities of assessment and of proposing new approaches. In preparation for a regional consultation on strengthening of rural financial institutions, ESCAP undertook five country studies (Bhutan, Indonesia, Nepal, Philippines and Viet Nam) during the second half of 1997. The objective of the studies and consultations was to examine critically the efficiency of non-formal credit organizations in providing credit to the rural poor, for microfinance activities, and to suggest policy alternatives for reaching the large numbers of credit-needy rural poor households within the next decade.

49. A multi-year project on enhancing the access of women to formal credit and financial institutions in the least developed countries has been completed. The project involved a series of country case studies and national workshops, a regional seminar and two publications on improving the access of women to formal credit and financial institutions. The intention of the project was to evaluate the potential of the major constraints faced by women in obtaining credit from formal financial institutions such as banks, to identify special features of successful formal credit programmes and to formulate recommendations. As a result of the project, there is now much more awareness among central banks and major financial institutions in the six least developed countries of the Asian region to the problems faced by women.

50. The Economic Commission for Latin America and the Caribbean (ECLAC) carried out a project on small and

medium-sized enterprise financing in seven countries (Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador and Mexico). The project showed that current approaches to small business finance were based on the experience of previous policies that focused on credit subsidies and had meagre results. New approaches to small scale enterprises were part of market-oriented policies. These approaches have frequently proposed ambitious goals regarding access of smaller businesses to financing technical training and technical and financial assistance. However, actual implementation of those measures is still at an experimental stage.

51. The Economic and Social Commission for Western Asia (ESCWA) has a number of activities for promoting entrepreneurship in small enterprises, including the provision of assistance to countries and institutions of the region. One of its major activities is providing support to start up business and building national training capabilities. A number of "start your own business" courses for potential entrepreneurs, and potential trainers, in cooperation with local institutions, have been conducted since 1990. To that effect, ESCWA produced a trainers manual in Arabic on starting your own business. An understanding was reached early in 1996 between ESCWA and the United Nations Development Fund for Women (UNIFEM), in which ESCWA provided technical assistance to a UNIFEM project entitled "Strengthening institutions for the development of women enterprises" in Jordan, Lebanon, the Syrian Arab Republic and the Palestinian territories. ESCWA assistance to the UNIFEM project was in the areas of entrepreneurship training and business counselling, information and business incubators. ESCWA, in cooperation with UNIFEM and the Development Employment Fund of Jordan, organized the simulation exercises and learning laboratories development camp at Amman from 6 to 11 December 1997. One of the major objectives of the camp was to upgrade trainers' skills in adapting existing training materials and designing new ones to meet the needs of various target groups in urban and rural areas, with emphasis on the poor. Particular consideration was given to the development of microbusinesses. In the programme of work for 1998–1999, ESCWA is expanding its activities on microcredit under the subprogramme on improvement of the quality of life. Focus is given in that subprogramme to the eradication of poverty, with microcredit as one possible tool. The following areas will be covered: the role of income-generating activities in eradicating poverty and improving the standard of living in local communities; the role of the informal sector in community development; the social impact of structural adjustment, with special emphasis on unemployment; and operational microcredit lending facilities to poor women in rural and urban areas.

52. In assessing the role of microcredit in the economies in transition, the Economic Commission for Europe (ECE) underlined the fact that, although many countries, including the Czech Republic, Hungary, Poland, Slovakia and Slovenia, have recognized the need to develop microenterprises, particularly in areas facing high unemployment rates, entrepreneurs have limited access to sources of finance. The reasons include the following: (a) financial institutions consider it risky to lend to micro and small businesses because of the high failure rate, economic uncertainties and lack of collateral; (b) commercial and credit banks have no experience in dealing with microenterprises, and the high administrative costs involved in processing small loans; (c) lack of transparency in evaluating loans and lack of skills of financial institutions in dealing with microenterprises; (d) in almost all countries of the region, the national clearing systems are poor and outdated and, consequently, the majority of the transactions are made in cash because of uncertainties and delays encountered by the electronic money transfer systems; and (e) lack of reliable data regarding markets. To help overcome these problems, ECE is supporting the following: (a) favourable national policies on microenterprises and microcredit organizations; (b) evaluation of current experiences through surveys and workshops; (c) elaboration of medium-term and long-term capacity-building programmes to create cost-effective and self-sustaining microcredit organizations; and (d) creation of long-term national and international grants and funds to implement national programmes.

B. United Nations funds and programmes

1. United Nations Capital Development Fund

53. Since its creation in 1966, as a capital funding window under the UNDP umbrella, the United Nations Capital Development Fund (UNCDF) has been the channel for UNDP to fund microfinance interventions. It has so far approved more than US$ 100 million of investment credit activities, the majority being microfinance related, with the balance to small and medium-sized enterprises. At the present time, UNCDF has an active microfinance portfolio of about $40 million, of which 70 per cent is in Africa, 20 per cent in Asia and 10 per cent in Latin America. UNCDF has implemented microfinance projects through a variety of partners, ranging from state-owned financial institutions to credit unions and non-governmental organizations. It has

also used several financial mechanisms in support of those projects, including grants to fund start-up costs and operational expenses, provision of capital for lending, and guarantee facilities that have been used as incentives for banks to refinance "retailing" microfinance institutions. In 1996, UNCDF published a policy paper entitled "Microfinance and poverty strategies" that underlines both the policy and instruments used by UNCDF in helping restore basic financial intermediation through the provision of credit and savings services, especially in rural areas. In preparation of the Fund's 1999 evaluation by its donors, UNCDF has commissioned a mid-term assessment of its programmes, including local development funds, economic development projects and the microfinance portfolio. Started in November 1997, the portfolio's assessment has been carried out in close cooperation with CGAP. It focuses on seven microfinance projects selected from UNCDF major interventions, of which four are in Africa (Lesotho, Madagascar, Malawi and a regional project in West Africa), two are in Asia (Bhutan and Laos) and one in Latin America (Bolivia).

54. UNCDF has been actively supported by the Special Unit for Microfinance, which was created in September 1997 and given the task of building synergy between the established UNCDF experience in microfinance and the growing demands from the global network of UNDP country offices. The Unit also provides quality technical support to the MicroStart programme, which was launched in February 1997 at the Microcredit Summit held in Washington, D. C., and given the task of helping start-up and fledgling initiatives. The Unit has initiated or supported project formulation exercises in Haiti, Madagascar, Mali, Mauritania and Mozambique, and in the Palestinian territories. It also helped re-engineer the regional microfinance project with the West African Development Bank to improve its impact and sustainability. The Unit also provided key support to the preparation of the portfolio evaluation with CGAP. Finally, it has helped UNCDF with the identification of expertise, the elaboration of standard terms of reference for audit and evaluations and the definition of standard monitoring and impact evaluation tools that will also be used by the MicroStart unit, thereby helping to improve and streamline microfinance practices within UNDP.

2. United Nations Children's Fund

55. The United Nations Children's Fund (UNICEF) integrates microcredit into its programmes in countries where lack of access to small loans is identified as an obstacle to the improvement of the situation of women and children. In those countries, UNICEF works with communities, non-governmental organizations and Governments to (a) stimulate national efforts to expand microcredit for women; (b) strengthen national and local capacities to deliver small loans and basic social services; and (c) monitor and evaluate its support to microcredit to improve its effectiveness and efficiency and contribute to the dissemination of best practices with a view to ensuring sustainable reduction in poverty. In this connection, UNICEF has supported microcredit programmes in such countries as Bangladesh, Benin, Brazil, Cambodia, China, Egypt, Ghana, Guatemala, India, Kenya, Nepal, the United Republic of Tanzania and Viet Nam. Recent evaluations and impact assessments conducted in two countries, Egypt and Viet Nam have shown that microcredit can improve the well-being of the borrowers and that the impact is greatest when credit is combined with support for access to basic social services.

3. United Nations Development Fund for Women

56. As part of its core strategy, UNIFEM recognizes the need to provide credit to women as a way of strengthening women's institutions at the grass-roots level. In that connection, UNIFEM has invested in a series of projects in Western Asia to ensure that women's capacities and skills are developed and to enable them to run small-scale businesses successfully. These initiatives include developing business counselling services within national institutions, establishing networks of credit programmes and supporting business skills training sessions on business and financial management for several hundred women entrepreneurs in Gaza, Jordan, Lebanon and the Syrian Arab Republic. Working in partnership with several United Nations agencies and other organizations, UNIFEM has facilitated the creation of women's business networks in a region where women have limited economic power. In the Latin American and Caribbean region, UNIFEM, in association with Acción Internacional, worked to gain private sector support for the launch of gender-sensitive initiatives and helped broker a partnership between Latin American microlending organizations and banks to leverage a $1.2 million line of credit to support women's microenterprise in Colombia and Chile. In Africa, in association with UNDP and the Special Unit for Technical Cooperation among Developing Countries, UNIFEM brokered the establishment of MICROFIN-Africa, a network of 42 microenterprise non-governmental organizations that deliver small credit to women in 17 countries of sub-Saharan Africa. On the global level, UNIFEM has also facilitated the formation of the International Coalition on Credit, which consists of 32 of the

world's leading microcredit and business non-governmental organizations with more than 200 affiliated organizations.

C. Specialized agencies of the United Nations

1. International Labour Organization

57. The involvement of the International Labour Organization (ILO) in microfinance reaches back many years, through its activities related to the development of the informal sector, and in particular its promotion of cooperatives, including savings and credit cooperatives. In response to the needs of its constituency – Governments, trade unions and employer organizations – ILO developed international labour norms that define standards for its constituents on how to support entrepreneurial activities of the working poor, formulated norms in technical cooperation to help constituents finetune policies and improve institutional performance, and developed research modalities to help resolve information deficits, influence policy makers and identify best practice. Through its country objective reviews, ILO found that its constituents consider microfinance to be a potentially powerful tool in facing the poverty alleviation challenge, especially through self-employment and micro and small enterprise development. The reviews call on authorities to create a more favourable environment for formal and informal microfinance, the establishment of additional microfinance institutions, and improved access for micro and small enterprises to microfinance services, and to assist women in accessing those opportunities (for example, by using collateral substitutes for loan securitization).

58. ILO conducts research on various aspects of microfinance to fill information deficits, influence policy makers and identify best/good/bad practices. Its ongoing work covers such issues as enterprise creation by the unemployed; the role of microfinance in industrialized countries – an ILO action programme for 1998–1999; the impact of financial sector liberalization on the access of micro and small enterprises to financial services; gender and control over financial resources; the use of collateral substitutes in loan securitization; and strategies to reduce transaction costs in bank lending to micro and small enterprises.

59. With regard to technical cooperation, a recent review of ILO technical cooperation, covering the period 1996–1998, identified 52 projects with a microfinance component. Nineteen of the projects focus exclusively on microfinance, while the rest contain other intervention components. The total budget of the 52 projects is $67.8 million, with $6.1 million going into microcredit funds and an estimated $30.1 million to research and advisory and capacity-building services in the field of microfinance. The projects are located in Africa, Asia and Latin America. ILO expertise is also increasingly in demand in the promotion of sustainable microfinance operations in post-conflict countries such as Cambodia, and the former Yugoslavia and in regions such as Central America and sub-Saharan Africa.

2. World Bank

60. One reason the original members of CGAP decided to locate the secretariat within the World Bank was to strengthen the Bank's growing microfinance-lending portfolio. CGAP expects the Bank to play a pivotal role in working with Governments to create an enabling business environment for microfinance institutions and making linkages between the overall macroeconomic framework and microfinance. CGAP has formed alliances with World Bank Group entities involved in microfinance, including the Sustainable Banking for the Poor Initiative, the Africa Research Programme and the Rural, Microfinance and Small and Medium-sized Enterprise Thematic Group. Each alliance has generated joint products such as the Microfinance Practical Guide and case studies of microfinance institutions. In terms of World Bank projects with microfinance components, it is reported that, in 1997, there were 21 such projects being developed or in the pipeline in 19 countries, including 13 low-income African countries. In almost every case, CGAP was involved at an early stage, reviewing the choice of financial intermediaries, products and services, capacity-building activities and other characteristics of the planned loan or credit. CGAP has also collaborated on World Bank projects in several countries to leverage the Bank's ability to create enabling policy environments. In the past two years, the CGAP secretariat and the World Bank staff have held technical discussions on more than 40 existing and planned microfinance-lending operations and regional activities. This cooperation has improved the design of many lending operations, resolved operational and technical issues and expedited financial sector reform in a number of countries, including Angola, Argentina, Armenia, Brazil, the Republic of Moldova, Sri Lanka and Viet Nam.

3. International Fund for Agricultural Development

61. Over the past two decades of providing financial aid, much of it through microcredit programmes for the poorest of the rural poor in developing countries, the International Fund for Agricultural Development (IFAD) firmly believes that the poor are "bankable". Its action plan is based on three

fundamental propositions. The first stems from the Fund's mandate to address rural poverty by recognizing the importance of microfinance as a key empowerment tool in ensuring improvements in incomes and sustainable household food security among the world's poorest families, especially the women of those families. The second recognizes the fact that, while access to credit and savings facilities is crucial, it is usually not enough by itself to ensure the sustainable development of the rural poor, who also need links to an efficient distribution system for their production, including viable roads to market places, access to appropriate technology, technical training, fair prices for inputs and a favourable regulatory climate. Thirdly, rather than providing temporary services for the poor, the main objective of IFAD is to develop viable and financially sustainable rural financial systems, especially for the very poor living in remote areas in many developing countries. While maintaining the prime focus on the poor, IFAD also emphasizes the need to safeguard loan funds, promote sector-wide performance standards and strengthen the provision of non-financial services. At the regional and local levels, IFAD is helping to build a cadre of microfinance technical experts, strengthen training centres and promote sustained linkages to commercial capital, while seeking to ensure a favourable regulatory environment. IFAD is an active member of CGAP and has thus far committed over $1 billion in financial services and credit to the rural poor, which represents about one quarter of its total lending to date. An estimated 20 million persons have benefited from these services.

Notes

[1] See *Report of the World Summit for Social Development, Copenhagen, 6-12 March 1995* (United Nations publication, Sales No. E.96.IV.8).

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